Cdymax (India) Pharma Private Limited (Revised)

February 11, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	167.81	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Short-term Bank Facilities	0.50	CARE A3+ (A Three Plus)	Assigned
Total Bank Facilities	**168.31 (Rupees one hundred sixty-eight crore and thirty-one lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Cdymax (India) Pharma Private Limited (Cdymax) takes into account the long track record of operations of the company in the pharmaceutical sector, the manufacturing facility accredited by major regulatory agencies, established relations with reputed clients spread across geographies, and efficient working capital management on account of favourable credit terms with the suppliers. The ratings also positively consider the growing scale of operations though tempered during 9MFY22 on account of the COVID-19 pandemic, satisfactory capital structure, and favourable industry growth prospects.

These rating strengths are partially offset by project implementation risk on account of debt-funded capex being undertaken by the company for expansion of its existing facility, product and customer concentration risk, susceptibility of margins to forex and raw material price fluctuations and exposure to regulatory risk. CARE Ratings also takes note of the completion of the capex of the formulation unit; and Cdymax's ability to receive regulatory approvals in a timely manner and to ramp-up production will be key to its prospects.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant improvement in total operating income (TOI) by more than 20% y-o-y while maintaining PBILDT margin at current levels on a sustained basis and TOL/TNW of less than 1.75x.

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Significant decline in TOI or operating profits by more than 20% y-o-y.
- Any un-envisaged debt-funded capex/additional debt availed by the company, resulting in deterioration of solvency ratios; overall gearing deteriorating to above 1x.
- Unfavourable change in the credit terms with the suppliers, leading to increased dependence on debt to meet working capital requirements.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of operations

Cdymax has more than two decades of operational track record in the pharmaceutical sector and is engaged in the manufacturing of active pharmaceutical ingredients (APIs). The directors of the company, viz., Ms Manorama Avinash and Mr Rajeev V Jahagirdar, have extensive experience in the industry. Ms Manorama Avinash has more than 10 years of experience in the pharmaceutical sector and looks after the overall operations of the company, while Mr Rajeev V Jahagirdar has more than 25 years of experience and looks after the production activities.

The company also derives benefit from its promoter company, Couplet Ltd, whose shareholder holds stake in China's Shanghai Acebright Pharmaceuticals Group Co. Limited (formerly known as Shanghai Desano Group), established in 1996.

Accredited manufacturing facilities

The company has an installed capacity for APIs of 300 tonne per annum (200-tonne for general API and 100-tonne for oncology API), as on September 30,2021. The facilities are approved by various regulatory agencies, such as the US Food and Drug Administration (USFDA), the World Health Organization, Geneva (WHO), and the Central Drugs Standard Control Organisation (CDSCO), India. This apart, the company recently completed a formulations unit with an installed capacity of 250 million tablets

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

per year and 20 million capsules per year, and is in the process of receiving approvals for the same from various regulatory agencies.

Reputed customer-base with geographically-diversified scale of operations
Over the years, Cdymax has built a strong customer base and has been able to receive repeat orders from them. During FY21, the top five customers contributed approximately 72% of the total revenue, of which largest customer contributed to around 32%. Furthermore, the operations of the company are geographically-diversified, with no single region contributing more than 30% to the overall revenue.

Efficient working capital management
The pharmaceutical sector is working capital-intensive in nature, marked by a high inventory holding period. However, Cdymax has been efficiently managing its working capital cycle over the years due to its strong relationship with suppliers who provide favourable credit terms of around 300 days. The company has to maintain minimum inventory levels to meet the customer requirement on time and for smooth flow of business operations. As on March 31, 2021, the working capital cycle of the company stood negative, despite an inventory holding period of 118 days. Due to the efficient working capital management, the dependence of the company on bank borrowing remained low, as reflected by the average fund-based utilisation of 21% for the last 12 months ended December 31, 2021.

Comfortable financial risk profile
The TOI of the company has increased at a compound annual growth rate (CAGR) of 9.25% over a period of four years, from Rs.257.8 crore in FY18 to Rs.367.2 crore in FY21, primarily on account of continuous capex undertaken by the company, resulting in increased capacity as well as increased contribution from the oncology segment with stable sales from the ARV-HIV segment.
However, during 9MFY22, on account of the second wave of the COVID-19 pandemic, the revenue of the company was affected during the first quarter of the financial year as all other treatments were deferred, with preference given to COVID treatment. However, with the subsequent normalisation of the COVID situation, the sales momentum improved, with the company achieving a TOI of Rs.176 crore during 9MFY22.
Due to the strong net worth base and high credit period available from suppliers, thereby keeping low reliance on WC limits, the overall gearing of the company remained below unity, at 0.48x as on March 31, 2021 (PY:0.42x), despite the continuous increase in term debt over the past four years. Nevertheless, TOL/TNW is relatively high at 2.09x as on March 31, 2021, as against 1.97x as on March 31, 2020. Moreover, the lower reliance on WC limits has resulted in maintaining debt coverage indicators also comfortable as, reflected by interest coverage ratio of 11.44x (PY:4.23x) and TDGCA of 1.86x (PY: 3.30x) during FY21.

Favourable industry outlook
With a market size of around US$ 45 billion in FY21, the Indian pharmaceutical industry globally ranks third in terms of volume and thirteenth in terms of value. The reason for the higher rank in terms of volume while lower rank in terms of value is primarily attributed to the predominance of the Indian pharmaceutical market in the generic segment. The industry has exhibited a CAGR of about 7.2% during FY17-FY21 and registered a growth of about 12% during FY21. However, with the change in dynamics, CARE Ratings expects the industry to grow at about 11% in the next two years and reach a size of over US$ 60 billion. The main factors that are expected to drive the growth of the industry are: (a) the ability to leverage the opportunity available for Indian pharmaceutical companies due to expiry of the patent drugs across the globe, (b) ebbing of regulatory risks, (c) the adoption of various strategies to de-risk from dependency on China for key raw materials, (d) the increasing trend in PE investments, and (e) the solid fundamentals of the industry. Exploiting these opportunities, CARE Ratings expects the credit risk profiles of its rated entities to remain stable to positive during FY22 and FY23.

Key Rating Weaknesses
Project implementation risk
Cdymax has planned a debt-funded capex to enhance its general and oncology API capacity by 250 tonne per year. The total cost of the project is estimated to be around Rs.120 crore, of which Rs.95 crore will be funded through bank debt, Rs.15 crore through promoter contribution, and the remaining through internal accruals. The project development is expected to commence from mid-FY23 and completed by FY24-end. Any delay in project implementation, leading to increase in the project cost funded out of debt, will be crucial from the credit perspective and will be a key rating sensitivity.

Product and customer concentration risk
Although the company has a diversified product portfolio, 77% of the revenue is derived from three products. Furthermore, around 85% of the total revenue is derived from two therapeutic segments, i.e. ARV (40%) and oncology (45%).

Susceptibility of margins to forex and raw material price fluctuations

The company imports around 50-60% of its raw materials from China, as the raw material prices are favourable (when imported from China) as against procured domestically. The company is thus exposed to forex risk. Nevertheless, since the company derives around 65-70% of its revenue from exports, foreign exchange price fluctuation is mitigated to some extent by way of natural hedge. That said, the profitability margins are susceptible to fluctuation in raw materials and foreign exchange price fluctuation risk, as reflected by lower operating margins of 9.47% earned during FY20, primarily on account of forex loss of Rs.9.65 crore. However, improvement in the TOI during FY21 with forex gain of Rs.7.21 crore resulted in better absorption of fixed overheads, leading to improved PBILDT margins of 16.56%.

Exposure to regulatory risk

The pharmaceutical industry is highly regulated and requires various approvals, licenses, registrations and permissions for business activities. Each authority has its own requirement, and they could delay or refuse to grant approval, even when a product has already been approved in another country. The approval process for a new product registration is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. Any delay or failure in getting approval for a new product launch could adversely affect the business prospect of the company. Given India's significant share in the US generic market, the USFDA has increased its scrutiny of manufacturing facilities and other regulatory compliances of the Indian pharmaceutical companies supplying APIs and generic drugs to the US. Non-compliance may result in regulatory ban on products/facilities and may impact a company's future approvals from USFDA. Although currently Cdymax derives negligible revenue from the US markets, the company has cleared USFDA inspection and has received its certificate in March 2020.

Liquidity: Adequate

The liquidity position of the company remains adequate, with gross cash accruals (GCA) of around Rs.35-40 crore against debt repayment obligations of Rs.18-32 crore over FY23-FY24. Furthermore, the company has free cash and bank balance of Rs.6.65 crore, as on January 27, 2022. Since the company received extended credit period from its suppliers, dependence on fund-based limits to manage working capital borrowings remains low, as reflected by the average working capital utilisation of 21% for the last 12 months ending December 2021.

Analytical approach: Standalone

Applicable Criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Pharmaceutical

About the Company

Cdymax (India) Pharma Pvt Ltd (erstwhile Acebright (India) Pharma Pvt Ltd) was incorporated on October 27, 1994. Initially, the company was engaged in the manufacturing of drug intermediates, however, in 2006, with Couplet Limited (entity held by individual investors who have shareholding in Shanghai Acebright Pharmaceuticals Group Co. Ltd) investing into the company, it ventured into the manufacturing of APIs.

The company has an installed capacity for APIs of 300 tonne per annum (200-tonne for general API and 100-tonne for oncology API), as on September 30, 2021. This apart, the company has a formulations unit with installed capacity of 250 million tablets per year and 20 million capsules per year. The facilities are approved by various regulatory agencies, such as the US Food and Drug Administration (USFDA), the World Health Organization (WHO), and the Central Drugs Standard Control Organisation (CDSCO), India, among others.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	295.41	367.25	176.40
PBILDT	27.39	60.83	31.26
PAT	4.82	27.88	6.96
Overall gearing (times)	0.42	0.48	NA
Interest coverage (times)	4.23	11.44	NA

A: Audited; UA: Un-Audited; NA: Not Available

Status of non-cooperation with previous CRA: India Ratings and Research Private Limited has placed the ratings of Cdymax under 'Issuer Not Cooperating' via press release dated December 14,2021 as the agency does not have adequate information to review the ratings.

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument/facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	March 2029	160.31	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	-	7.50	CARE BBB; Stable
Non-fund-based - ST-Forward Contract	-	-	-	-	0.50	CARE A3+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	160.31	CARE BBB; Stable	-	-	-	-
2	Fund-based - LT-Cash Credit	LT	7.50	CARE BBB; Stable	-	-	-	-
3	Non-fund-based - ST-Forward Contract	ST	0.50	CARE A3+	-	-	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	- TNW >Rs.170 crore (including unsecured loans, deferred tax liability adjusted for any loans and advances to group/associate company) - TOL/Adj. TNW< 3.5x - Interest cover> 2.00x - ADSCR>1.25x - Minimum current ratio of 0.71x to be maintained
B. Non-financial covenants	- The promoters shall maintain management control in the company

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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